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Policy Paper:

State of the Informal Sector in Jordan: Opportunities for Integration

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Policy Paper:

State of the Informal Sector in Jordan: Opportunities for Integration

Foreword

Very few studies have tackled the informal sector in Jordan, and even fewer have done so at the national level. The purpose of the present study is to fill a gaping void in the field and to give researchers, decision makers and all relevant actors a comprehensive understanding of the scale of the informal sector, compared to the national economy as a whole, and of its significant contribution in absorbing “surplus labor”, both local and foreign. Truth be told, the outcomes of this study have proven, beyond the shadow of a doubt, the paramount importance of this sector, which accounts for nearly a quarter of the gross domestic product and employs approximately half of the workforce in Jordan (46 percent).

However, the significance of this policy paper does not end there, as it also attempts to shed light on prevailing views on the sector, how they evolved and the negative attitudes they have generated, in an effort to revisit our understanding of the informal sector. In fact, the study depicts the informal sector as a need and a necessity, not as a burden; as an expression of the natural evolution of economic and social life in Jordan, not as an illicit activity; and, finally, as a permanent, rather than temporary, sector that requires attention, support and regulation, not prosecution and criminalization.

Al-Quds Center for Political Studies conducted this study as part of its efforts to offer proposals, alternatives and policy recommendations for the government and public and social decision-making institutions in Jordan, which would enrich the ongoing national dialogue on the country’s economic and social choices and ways to rise up to the challenges it currently faces.

The study sets out to achieve three main objectives: measuring the size of the informal economy and the workforce it employs; determining the factors that have led to the rise, maintenance and development of the informal economy; and providing a qualitative and quantitative analysis of the informal economy in Jordan. In order to achieve this, the study adopted a number of interrelated research methodologies, including: carrying out a literature review, holding focus group discussions with experts, specialists and workers in the sector and conducting direct interviews with a sample of workers in the informal sector. The study also utilized various models of the “money supply” methodology in order to generate an accurate assessment of the size of the



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من الشعب الأمريكي informal economy compared to the economy as a whole. For this purpose, the study covered the period from 1976 until 2017.

The policy paper is split into five chapters: the first is a historical overview, which provides a background on the evolution of the concept of the informal sector from the early 1970s to this day. It also explores the various definitions of the informal sector and how they evolved, ultimately reaching the broadest definition, which is not limited to the “legal framework” governing the sector, but also covers the “informal workforce” as a defining and measurement criterion. This chapter also presents a number of theories and schools of thought that have tackled the subject.

The second chapter of the paper provides a review of the theoretical background underpinning research and studies on the sector. It also presents the major schools of thought in the field – namely, the legalist, the dualist, the structuralist and the voluntarist schools – before defining and discussing each of them in more detail.

The third and fourth chapters are entirely dedicated to measuring the informal sector in Jordan, by using the “money supply” theory. Various measurement models were explored, and all resulted in relatively similar averages. The paper also relied on the outcomes of the surveys carried out by the Department of Statistics to measure the size of the informal workforce, by using two indicators: social security registration and the conclusion of written or verbal contracts between workers and employers. The study goes on to provide a quantitative description of the sector’s characteristics in terms of age, educational attainment, gender, income and other variables, in an attempt to give a deeper and more accurate understanding of the reasons for the sector’s growth, in addition to the opportunities it creates and the challenges it faces.

In the fifth and final chapter, a set of recommendations were provided for relevant actors. If adopted, these recommendations could help to integrate the informal economy into the formal economy, regulate the status of informal workers, guarantee their rights and interests and prevent any problems that might be caused by the lack of regulation and poor problem management in a sector of such magnitude.

Finally, I must say that this paper was a joy to read. I would like to express my deep and sincere gratitude for the USAID Fiscal Reform and Public Financial Management Program, as this paper would not have been completed without its support. I would also like to thank fellow researchers Bashar Suboh and Hussein Abu Rumman, as well as to the Project’s Coordinator Hala Salem, who all saved no effort to finalize this study.

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1. Introduction

The concept of “informality” was introduced in the early seventies, during a research mission to Accra, Ghana. Since then, extensive literature has been written on the subject, using terms such as ‘shadow economy’, ‘underground economy’, ‘hidden economy’, and ‘grey economy’, each having different descriptions spread across time and space. Nowadays, the term “informal economy” is widely used in developing and developed countries, owing largely to the increase in the size of unreported activities in both absolute and relative terms, which is driven by increasing immigration, a rise in job flexibility – albeit coupled with a decline in job security – and the massive economic and trade liberalization during the past two decades.

The first ILO employment mission in 1972 to Ghana, Africa, recognized that the traditional sector, named the “informal sector”, had not just existed, but also expanded. The mission also observed that the informal sector, described as activities that are unrecognized, unrecorded, unprotected or unregulated by governments, was not confined to marginal activities, but also included profitable enterprises. Furthermore, the activities of the informal sector were mostly ignored, rarely supported and sometimes actively discouraged by policymakers and governments. Economic development had thus failed to create sufficient modern jobs to absorb the increasing number of unemployed people.

The informal sector in developing countries has been steadily growing during the last three decades. A massive pool of surplus labor has created its own source of livelihood to survive. Moreover, it is clear that the informal economy has a significant potential for generating jobs and income and that it helps to meet the needs of poor consumers, by providing accessible and low-priced goods and services. Accordingly, the informal economy can no longer be considered as a temporary phenomenon, and it needs to be better understood by decision-makers, governments and donors.

Controversy over the importance of the informal sector is still raging, which has led to many challenges in finding a suitable definition of the informal sector and understanding how that sector arises, operates, and can be measured. Defining the informal sector relies on different criteria, which in turn depend on the legal, technical, financial, and organizational use of the term. Therefore, no unified definition of the informal economy exists in the literature, and, as a result of this ambiguity, there are large variations in estimating the size of the informal sector.

2. Definition and Concept of Informal Sector

Given that there is a little agreement between economists and socialists on how to define the informal economy, and in order to determine the most appropriate definition for our



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2.1 How to Define the Informal Economy: Literature Review

One common definition of the informal sector describes it as all currently unregistered economic activities, which contribute to the officially calculated (or observed) Gross National Product. This definition is used by Feige (1989) and Lubell (1991), among others.

Schneider (1986) also describes the informal economy as being all economic activity that contributes to added value, but which is currently not registered by national measurement agencies.

Smith (1994) defines the informal economy as the “market-based production of goods and services, whether legal or illegal, that escapes detection in the official estimates of GDP.” Hartzenburg & Leimann (1992) prefer a broader definition: “All economic activities pursued without the sanction of the authorities; i.e. those not recorded in the national accounts.”

However, the System of National Accounts (SNA), which is a coherent and integrated set of internationally accepted accounting concepts and rules devised by the United Nations, takes its definition directly from the ILO definition for statistical purposes, whereby the informal economy is defined as a group of production units that form part of the household sector as household enterprises, or, equivalently, non-incorporated enterprises owned by households (Prinsloo, 1999). To be consistent with the framework of the SNA and provide separate GDP accounting for the informal sector, the definition was based on production units or enterprises, rather than on employment relations. The categories according to which the informal economy has been defined could be presented as follows:

2.1.1 Definition by economic units/enterprises; the early formal definition

The definition of the informal economy by activities (economic units/enterprises) is the most traditional among the various definitions of the informal economy. Informal enterprises are characterized as “informal” because they rarely comply with all the regulations that apply to their trade, such as those concerning registration, tax payment, conditions of employment and operating licenses.

Informal enterprises are not only units that employ labor, but also those that are owned and operated by single, self-employed individuals. Accordingly, independent street vendors, taxi drivers and home-based workers are all considered to be enterprises. Since



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من الشعب الأمريكي these enterprises have limited capital resources, they rarely engage in transactions, enter into contracts or incur liabilities. Owners generally have to provide the necessary financing at their own risk. Informal enterprises also rarely have any accounting system in place.

Units engaged in the production of goods and services, with the primary objective of generating employment and income to the persons involved, typically operate on a small scale and at a low level of organization, with little or no division between labor and capital as factors of production. Labor relations – where they exist – are based mostly on casual employment, kinship or personal and social relations, rather than contractual arrangements with formal guarantees (ILO, 1993).

Under the 1993 ILO definition, individual countries can decide what size of unregistered units should be included in the informal sector, and whether the agriculture sector and domestic workers should be included. Nevertheless, some observers recommend an employment-based definition of the informal economy that would include all non-standard wage workers, whether in informal or formal firms, who work without minimum wage, assured work or benefits. However, as the ILO definition focuses on enterprises, it neglects the myriad informal wage work arrangements and thus does not capture all the dimensions of informal employment.

2.1.2 Definition by employment categories; the expanded formal definition

Informal employment of all kinds is considered to be remunerative work; both self-employment and wage employment that is not recognized, regulated, or protected by existing legal or regulatory frameworks, as well as non-remunerative work undertaken in an income-producing enterprise.

The informal economy could be described through the following employment categories:

- Self-employed, i.e. own-account workers, heads of family businesses and unpaid family workers;
- Wageworkers, i.e. employees of informal enterprises, casual workers without a fixed employer, home workers, paid domestic workers, temporary and part time workers and unregistered workers.
- Employers, i.e. owners and owners-operators of informal enterprises.

As the 1993 ILO definition focuses on the “enterprise” dimension, many believe that it underestimates the significance of the informal economy by excluding the informal wage work arrangements. In response to this shortfall, the ILO has broadened its definition to include informal employment. The most recent definition of the informal economy,



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من الشعب الأمريكي approved at the 2002 International Labor Conference (ILC), is far broader than previous definitions and incorporates certain types of informal employment (Chen, *et al.* 2004). The ILO's expanded definition acknowledges that the informal worker often performs the same work as the formal worker, but does so in an environment that is unregulated and unprotected. "A majority of all workers in the world are in this same situation; they work in informal enterprises as well as in informal jobs (jobs that pay no benefits or provide no social protection)" (Chen *et al.* 2001).

In 2002, the ILC defined the "informal economy" as "all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements" (ILO 2002). The new definition broadens the focus from looking solely at the characteristics of unregulated enterprises (e.g. income, sector analysis) to include unregulated, employment relationships (e.g. home workers, day laborers).

2.1.3 Definition based on the place of work of informal actors

This definition is based on a description of the location within which these actors operate. The question of "place of work" was raised during the International Conference of Labor Statisticians (ICLS) of 1993, in connection with the renewed efforts towards a better measurement of women's activities.

This definition includes different categories as follow:

1. Home-based workers, which could be divided into two sub-categories:
 - a) Dependent home-based workers, who work at home, outside the establishment that buys their product, agree by prior arrangements to supply goods or services to a particular enterprise, get remunerated through what is paid for their products, and do not employ workers on a regular basis.
 - b) Independent home-based workers, who work in their home and deliver their products or services to prospective buyers. Their status is similar to that of the self-employed worker, and they are classified as part of the "account workers".
2. Street traders and street vendors.
3. Itinerant, seasonal or temporary job workers on construction sites or road works.
4. Those who work in between the streets and homes, e.g. waste collectors.



3. General Characteristics and Features of the Informal Economy

In very general terms, the informal economy is the unregulated, non-formal portion of the market economy, which produces goods and services for sale or for other forms of remuneration. The term “informal economy” thus refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements.

The informal economy is largely characterized by:

- Low entry requirements in terms of capital and professional qualifications.
- A small scale of operations.
- Skills often acquired outside of formal education.
- Labor-intensive methods of production and adapted technology.

Traditionally, the informal economy was perceived as comprising mainly survivalist activities. Various negative aspects were used to describe the informal economy, ranging from undeclared labor to tax evasion, unregulated enterprises and illegal and criminal activity.

Nevertheless, the vast majority of informal economy activities provide goods and services whose production and distribution are perfectly legal. In addition, informal economy activities are not necessarily performed with the deliberate intention of evading the payment of taxes or social security contributions, or infringing labor legislation or other regulations. The informal economy may, however, include restricted illegal and restricted legal operations or legal and irregular operators, but no criminal operators. It should therefore not be confused with the criminal economy.

It is highly important to highlight some key features of the informal economy in broad terms, including: its significance and permanence, the continuum of employment relations within it, its segmented structure, and the issue of its illegality, as there is a widespread misconception that the informal economy is somehow illegal or equivalent to the criminal economy (De Soto, 2000).

3.1 Significance and Permanence

The recent re-convergence of interest in the informal economy stems from the recognition that this economy is growing; is a permanent, rather than a short-term, phenomenon; and is a feature of modern capitalist development, not just traditional



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من الشعب الأمريكي economies, associated with both growth and global integration. For these reasons, the informal economy should not be viewed as a marginal sector, but as a basic component of the overall economy.

The reasons found in the literature behind the growth of the informal economy during the last decades, often interrelated and to some extent overlapping, include:

- *Limited absorption of surplus labor:* The limited capacity of agriculture and the formal economy to absorb surplus labor, coupled with the increasing number of job seekers, has boosted the size of the informal economy. In countries with high rates of population growth or urbanization, the informal economy tends to absorb most of the growing labor force in urban areas when the manufacturing industry and non-farm activities in general do not grow at the same pace.
- *Barriers to entry into the formal economy:* Excessive costs and government regulations, as well as corruption in areas such as business start-up, granting of business permits and land titles, according to scholars such as Hernando de Soto, have forced people to remain informal.
- *Weak institutions:* The weak capability of formal institutions to provide education, training and infrastructure, as well as other incentives for structural reform, has contributed to the growth of the informal economy.
- *Capital is favored over labor:* Global integration privileges companies who can move easily and quickly across borders to the disadvantage of workers. The globalization of the world economy, as well as global trade and investment patterns, thus tend to privilege capital and disadvantage labor, especially lower-skilled workers who cannot migrate easily or at all (Rodrik 1997).
- *Demand for low-cost goods and services:* The informal economy has been boosted by rural to urban migration, in conjunction with the demand for low-cost goods and services from those employed in the formal and informal economies.
- *Uncommitted or unaware governments:* Many governments are unaware of the economic contributions of the informal economy and the problems found within it. Therefore, they have found it unnecessary to intervene, due to their belief that the informal economy would simply die out. The informal economy has often been left unattended and has thus had few obstacles for its growth.
- *Economic hardship and poverty:* Migration driven by poverty, income erosion and unemployment tend to increase the number of people who enter the informal economy.



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من الشعب الأمريكي 3.2 Illegality or Semi-Legality

Previously, there was a widespread assumption that the informal sector was comprised of unregistered and unregulated enterprises, whose owners-operators chose to avoid registration and, thereby, taxation. While it is important to understand informal employment in light of the legal framework in any given country, that is far from being the whole story, due to interrelated production chains.

There is a distinction between illegal processes or arrangements and illegal goods and services. While production or employment arrangements in the informal economy are often semi-legal or illegal, most informal workers and enterprises produce and/or distribute legal goods and services. Admittedly, one part of the informal economy, the criminal economy, operates illegally and deals with illegal goods and services. Many owners-operators of informal enterprises operate semi-legally or illegally, because the regulatory environment is too punitive, too cumbersome or simply non-existent. Many informal activities also do not generate sufficient output, employment or income to fall into existing tax brackets.

4. Schools of Thought and Measurement Approaches

This chapter will examine the behavior of the informal economy, by addressing four schools of thought found in the literature on the topic: the dualist, the structuralist, the legalist and the voluntarist. This chapter will also survey the literature on the relationship between the formal and informal economy, the informal economy, and some macro variables, including formal GDP growth, the budget deficit, and poverty levels.

The widely accepted definition of the informal economy, which encompasses both informal enterprises and informal employment relations, brings new challenges and obligations to those interested in quantifying informal economic activity at a local level. Accordingly, this chapter examines the various methods for estimating the size of the informal economy, which have been developed over the years. These different approaches could be categorized into three main methods: direct methods, indirect methods and modeling methods.

Direct approaches, mostly based on surveys and samples, rely on voluntary replies or tax auditing and other compliance methods to measure the informal economy; the results are sensitive to how the questionnaire is formulated and therefore unlikely to capture all informal activities.

Indirect approaches, also called indicator approaches, use indirect information to estimate the size of the informal economy. For example, the approach looking into the discrepancy between the official and actual labor force states that a decline in labor force participation



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من الشعب الأمريكي in the official economy can be seen as an indication of an increase in the size of the informal economy.

4.1 Schools of Thought on the Informal Economy

Over the years, the debate on the informal economy has been classified into four dominant schools of thought regarding the causes, composition, and nature of the informal economy, and what types of policy recommendations should be adopted. Each school of thought focuses on a different segment of the informal economy, from survivalists to sub-contracted producers and workers to independent entrepreneurs. As a result, each school has distinct notions of what a policy response to the informal economy should entail:

4.1.1 The Dualist School

The dualist school refers to the informal sector as being comprised of marginal and survivalist activities that are distinct from and not related to the formal sector and that provide income for the poor and a safety net in times of crisis. According to this school, the persistence of informal activities, and thus of a dualistic labor market, is largely due to the fact that not enough modern employment opportunities have been created to absorb surplus labor in developing countries, due to slow rates of economic growth and/or faster rates of population growth (ILO 1972).

Dualists argue that governments should create more jobs and provide credit and business development services to informal operators, as well as basic infrastructure and social services to their families.

4.1.2 The Structuralist School

The structuralist school, which emerged between 1970s and 1980s, sees informal enterprises and informal wage workers as subordinated to the interests of large capitalist firms, supplying cheap goods and services. According to the structuralists, and in marked deviation from the dualists, formal and informal modes of production are highly connected and interdependent. Also, the nature of capitalist development, rather than a lack of growth, accounts for the persistence and growth of the informal economy .

Structuralists argue that governments should address the unequal relationship between “big business” and subordinated producers and workers by adequately regulating both commercial and employment relationships.



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من الشعب الأمريكي 4.1.3 The Legalist School

The legalist school, which emerged in the late 1980s and 1990s, views the informal sector as comprised of informal entrepreneurs who choose to operate informally in order to avoid the costs, time and effort involved in formal registration. According to this school, cumbersome government rules and procedures create barriers to formalization and thus stifle the productive potential of informal entrepreneurs (de Soto 1989, 2000).

Legalists argue that governments should introduce simplified bureaucratic procedures to encourage informal enterprises to register and extend legal property rights for the assets held by informal operators, in order to unleash their productive potential and convert their assets into real capital.

4.1.4 The Voluntarist School

The voluntarist school also focuses on informal entrepreneurs who deliberately seek to avoid regulations and taxation. However, unlike the legalist school, it does not put the blame on unreasonable and strict registration procedures. According to this school of thought, informal entrepreneurs choose to operate illegally, or even criminally, in order to enjoy the benefits of avoiding taxation, commercial regulations, electricity and rental fees, and other costs of operating formally (Maloney 1999).

Voluntarists focus on bringing informal enterprises into the formal regulatory environment, in order to increase the tax base and reduce unfair competition by informal enterprises.

4.2 Theoretical Frameworks and Patterns of the Informal Economy

Many economists argue that most researchers have focused on the issue of measuring the informal economy, without addressing the economic process through which the variable in question is generated. Thomas (1999) argued that economists have empirically estimated the size of the informal economy, without any justification for the reasons behind the existence of such phenomena, or how it is connected to the formal economy.

The neoclassical school theory of the informal economy, led by Hart (1973), sees the informal economy as a “seedbed of growth”, a sector that complements the formal economy. Moreover, the basic needs approach to economic development, founded by the International Labor Organization, highly supports this view, as it suggests that providing the informal economy with basic health services, infrastructure, education, housing, and clean water supply will help relieve poverty more quickly, more than any other approaches devoted to stimulating growth in the formal economy. Critics of this approach



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من الشعب الأمريكي have focused on the perception that in developing economies, the basic needs approach tends to complicate the structural transformation towards industrial development.

4.2.1 Economic Growth, Poverty and the Informal Economy

There is a widespread perception that a higher percentage of poor people work in the informal economy, driven by the belief that the average income in the informal economy is much lower than in formal economy. Charmes (1998) stated that this law does not always apply, since many of those employed in the formal economy fail to escape poverty. Meanwhile, not all workers in the informal economy are poor.

In terms of the relationship between informal and formal economy, Schaefer (2001) found an indirect relationship between the growth of both the informal and formal economy, seeing formal economy as more productive and efficient and suggesting that expanding informal activities would lead to a drop in national income. The extreme anti-informal view describes the informal economy strictly as being a vehicle to avoid government regulation and taxes. In his study of the Peruvian economy, Kelley (1994) found that the demand-pull policies in the 1980s have been moderated by the existence of the informal economy, lowering the Keynesian multiplier, which in turn led to lower consumption expenditures.

Given the fact that the informal economy accounts for a substantial portion of the total output in developing countries, much more research is needed to deeply examine the interdependent relationship between the informal and formal economy.

4.2.2 Fiscal Measures and the Informal Economy

The link between budget deficit and economic growth still constitutes a debatable issue in developing countries. Some view the reduction in budget deficit as a necessary condition to promote inclusive and sustained economic growth, while others argue that promoting economic growth requires government expenditures, leading to deficit. The reduction in budget deficit could have an impact economic growth, by enhancing domestic consumption and demand on investment. Keynesians also argue that public investments are complementary to private investments, as public investments in core infrastructures are highly needed to enhance private investments.

Much literature has been devoted to assessing the relationship between economic growth and budget deficit. Many studies have reached the common conclusion that budget deficit is mostly accompanied with low economic growth in developing countries. The negative effects of increasing budget deficit on economic growth are mainly due to the misallocation of resources and bad debt management. According to this literature,



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من الشعب الأمريكي developing countries are faced with two options: They can either expand spending more efficiently and improve debt management, or they can cut public spending to narrow budget deficit.

Schneider and Enste (2000) view the relationship between the informal economy and budget deficit as a snowball: An increase in the activities of the informal economy, along with higher budget deficit, tend to put pressure on the informal economy to expand at a higher pace. These effects are then transmitted to the budget, as the expansion in the informal economy leads to lower tax revenue, due to high rates of tax evasion, which eventually leads to a widened government deficit. In its attempt to finance the budget deficit, the government will find itself obligated to impose more taxes or to raise the existing rates to increase tax revenues. However, such actions tend to increase the opportunity cost of operating formally, which, again, leads to an increase in the size of the informal economy, as many economic and labor units chose to migrate to the informal economy.

4.3 Measuring the Size of Informal Economy

Several approaches could be used to estimate activity in the informal sector, depending on the objectives of the study, data requirements, statistical systems and policymakers' needs. Estimates of the size of the informal sector can be classified into three categories: The direct approach, the model approach, and the indirect approach:

4.3.1 Direct Approach

This approach is microeconomic by nature. It estimates the size of the informal economy by determining the monetary extent of undeclared work. This approach is based on well-designed surveys or the results of tax audits. In order to make a direct estimate of the informal sector, several approaches are used to conduct a special survey on the informal sector. This allows researchers to expand the coverage of existing regular surveys, such as labor force or household surveys, with information pertaining to the informal sector, and to carry out mixed household–enterprise surveys.

The main advantage of the direct approach is that it could provide detailed information on the structure of the informal economy, in terms of sectoral and geographical distribution. Meanwhile, potential limitations may arise when using special surveys, including the fact that they are very costly and often require sizeable financial and human resources. In addition, the degree of accuracy of such estimates mainly depends on how honest respondents are in their answers. The direct approach to estimate the informal economy includes:



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من الشعب الأمريكي 4.3.1.1 Surveys

Surveys have been widely used as a means of collecting data on all aspects of the informal economy, including its size, determinants, characteristics and implications for urban areas. Depending on scope, time and budget, they can be deployed at both the national and local levels. In developing countries, where other forms of institutionalized and systemized data is less reliable, surveys have been the primary source of information on informal economic activity. Such surveys provide a deep understanding of rural and urban informal sectors in terms of their size, determinants, characteristics, workers' rights, labor regulations, gender equality issues, public health, home-based production, labor unionization, immigrant workforces, migration, formal small businesses, traditional livelihoods, social cooperatives, the conduct of multinational companies, and urban infrastructure.

4.3.1.2 Tax Audits

The Tax Auditing method determines the size of the informal economy by measuring the discrepancies between income declared for tax purposes and that measured by institutional verifications. Difficulties facing this approach include the fact that using tax compliance data is equivalent to using a possibly biased sample of the population, which, in turn, is likely to produce biased estimates of the informal economy.

4.3.1.3 Household Income Expenditure Discrepancy Approach

Economists and socialists have utilized a disaggregated analysis that examines the income and expenditure behavior of individuals. Such approaches depend on household income and expenditure surveys conducted by official statistical authorities. Such methods are based on the notion that households report higher annual cash outflows than total cash resources they had received during the year, and the resulting gap can be attributed to informal economy. Some economists classify this method as a direct approach, since it also relies on surveys.

The main drawback of this approach is that, as MacAfee (1980) stated, it assumes that household surveys are a reliable source of information. However, we must accept that individuals with something to hide will be more reluctant to respond to an official survey, and therefore such surveys underrepresent the informal economy.

4.3.2 Model Approach

This approach is used to examine a number of exogenous and endogenous variables through structural equations which lead to the existence and growth of the informal



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من الشعب الأمريكي economy over time (Giles *et al.*, 1999; Giles, 1999; Frey & Schneider, 2000). The most common method used as part of this approach is the Multiple Indicator–Multiple Cause (MIMIC) model, which imputes a level of underlying informality from a set of presumed causes of informality, on the one hand, such as taxation level, inflation, salaries, unemployment; and measurable consequences of it, on the other. The use of this model is not advised for compiling national accounts, as it suffers from serious problems that cast a shadow of doubt on its utility for any purpose in which accuracy is important, such as the estimation of national accounts indicators.

MIMIC models depend heavily on the theory of latent (or unobserved) variables in econometrics. In general, MIMIC models are made up of two parts: The measurement model and the structural model. The former is intended to link latent variables to observed indicators, whereas the latter specifies the causal relationships among the latent variables. In the case of the informal economy, there is only one latent variable, i.e. its size.

4.3.3 Indirect Approach

Indirect approaches are macroeconomic by nature. They integrate various aggregate economic variables and a set of assumptions to produce estimates of total economic activity. This approach uses macroeconomic data sources to estimate the size of the informal economy. Unlike direct methods, this approach provides a series of estimates for the informal economy, rather than a simple snapshot for a single year.

4.3.3.1 Labor Force Discrepancy Approach

The discrepancy methods are applied, in general, when two independent data sources measure the same variable. When one source of data captures unobserved activities while the other does not, the difference between the two measures can be attributed to the unobserved activities. According to this approach, the discrepancies between reports on the official labor force as compared to the actual labor force may be attributed to the informal economy (Bhorat *et al.*, 2001; Statistics South Africa, 2001). A drop in labor force participation according to official statistics could be an indicator of increased participation in the informal economy.

4.3.3.2 GDP Income Expenditure Discrepancy Approach

National accounts statisticians have used national figures on income versus expenditures to estimate the size of the informal economy. If the expenditure level is higher than the



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من الشعب الأمريكي income level, economists and statisticians consider this discrepancy to be an indicator of the scale of income generated by the informal economy. MacAfee (1980) and Hartzenburg & Leimann (1992) argued that discrepancies between national expenditure statistics and national income statistics may be attributed to the unobserved informal economy.

A widely cited study using this approach is that of MacAfee (1980), who defines the informal economy as “the economic activity generating factor incomes which cannot be estimated from the regular statistical sources used to compile the income measure of gross domestic product.” MacAfee considers the problem of including criminal activities in his definition and concludes that “The difficulties of measurement, combined with the incongruity of relating an increase in crime with an increase in economic activity, suggest that the inclusion of crime is problematical and that estimates of value added arising from crime should await better data.”

4.3.3.3 The Electricity Consumption Approach

The consumption of electricity is closely related to economic production. Specifically, the best physical indicator of economic activity is electricity consumption (Kaufmann and Kaliberda, 1996). Using this fact, a researcher can estimate the amount of electricity required by an economy to produce a given level of output. By this logic (as in the currency method), the actual demand for electricity is observed and the difference is attributed to the informal economy. An alternative method looks at the relationship between electricity consumption and GDP. After empirically showing that electricity consumption and GDP share the same elasticity, the difference in growth of GDP and electricity use is attributed to the informal economy.

This method suffers from similar flaws as the currency method, since many assumptions are made about the informal sector, including that informal production is as energy efficient as formal production. In addition, in his critique of this method, Schneider argues that not all informal activity requires electricity. The distribution of goods on the street is one example of a common practice that requires little or no electricity, while the elasticity of electricity consumption is volatile and depends on the respective market, including the efficiency of electricity distribution and the machines in use.

4.3.3.4 The Currency Demand Approach

Cagan (1958) was the first to develop the currency ratio method when he attempted to explain the long-term variation of the ratio of currency to the money supply in the US. This approach is deemed to be one of the most popular, oldest and simplest approaches for estimating the informal economy. Cagan’s approach to modeling the informal



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من الشعب الأمريكي economy assumed that the share of currency in the money supply in a base year represented normal behavior; any deviations from this ratio are used to capture the size of the informal economy. A similar approach was used by Guttman (1977), who looked at the ratio of currency and demand deposits over a period of time.

5. Size of Informality in Jordan

The most recent study on the informal sector was conducted by the IMF in 2018, entitled “Shadow Economies Around the World: What Did We Learn Over the Last 20 Years?”. This study attempted to undertake an extended discussion of the latest developments about the existing and new estimation methods of the shadow economy. New results on the shadow economy from 158 countries all over the world are presented over the 1991 to 2015 period. The strengths and weaknesses of these methods are assessed, and a critical comparison and evaluation of the methods is carried out. The average size of the shadow economy of the 158 countries over 1991-2015 period is 31.9 percent. The largest ones are Zimbabwe with 60.6 percent and Bolivia with 62.3 percent of GDP. The lowest ones are Austria with 8.9 percent and Switzerland with 7.2 percent of GDP.

According to the IMF study, the size of the informal sector in Jordan stood at 15.2 percent of GDP in 2015 and averaged 17.4 percent during the period under consideration. The informal sector reached its highest point in 1993, with 20.6 percent of GDP, while it reached its lowest in 2007 with 13.4 percent of GDP.

In 2011, the World Bank issued a study entitled “Striving for Better Jobs: The Challenge of Informality in the Middle East and North Africa”. The study came to the conclusion that the size of the informal sector varies in the Middle East, particularly in the non-gulf countries, and that it depends on the availability of natural resources and manpower, as well as on demographic factors. The data showed that countries with abundant labor and natural resources suffer from high rates of informal employment, such as Iran, Syria and Yemen. In addition, the data showed that 80% to 90% of the labor force does not contribute to the social security system; the rate of the non-observed part of the GDP was estimated at around 20% to 25%.

In countries with low employment and natural resources, such as Jordan, Tunisia and Morocco, the percentage of the non-observed GDP reached 36% to 40%, while the proportion of the labor force which does not contribute to the social security system reached 45% to 67%.

Schneider (2002) estimates the size of the informal economy in 110 developing, transition and OECD countries, including Jordan. His study employs different methods to estimate the size of the informal sector – namely, the currency demand method, the



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من الشعب الأمريكي physical input measure, the discrepancy method and the model approach. The results of the study show that the average size of the informal economy, as a percent of official gross national product (GNP) in the year 2000, in developing countries was 41%. In the case of Jordan, it was below the average (19.4), while it reached 38% in transition countries and 18% in OECD countries.

The most comprehensive study on estimating the size of the informal sector in the Jordanian economy using the survey approach was conducted by the Economic and Social Council (ESC) and the Ministry of Planning. The study shed the light on the status of the informal sector in Jordan and defined sectors in which the informal economy operates, using datasets generated from the Jordan Labor Market Panel Survey of 2010 (JLMPS 2010) and available information from the Department of Statistics, such as the Employment and Unemployment survey. The survey focused on the structure and characteristics of the Jordanian labor market. The study identified informal employment in its various guises, including wage and salary employment without contracts or social insurance and self-employment and unpaid family employment. It also proposed a detailed view of employment conditions, including paid and unpaid leaves, the presence of health insurance, working hours, and the type and size of the economic unit in which the worker is employed.

The study also estimated the size of the informal economy using the currency demand approach for the 1976-2010 period. The empirical results illustrated that the informal economy to nominal GDP ratio had reached 10.07% in the year 2010. The highest rate of the informal economy in 1998 was 12.05%. The average estimation of the informal economy in the study period (1976-2010) was 8.6%.

Based on the ESC study and the survey was conducted for the purpose of measuring the size of the informal employment in the Jordanian economy, employment in Jordan was classified into five groups as follows:

- Employment in the public sector;
- Formal employment in the private sector;¹
- Informal employment in the private sector;²
- Workers who work for their private account; and
- Zero-pay household workers.

The study found that, in 2010, informal employment accounted for 44% of total employment in the Jordanian economy. The results also show the distribution of the informal economy based on labor classifications. Informal employment in the private

¹ Formal workers are those who have a contract (permanent or temporary) or social security and receive payment in return for their work.

² Informal employment includes workers who work without contract or social security.



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من الشعب الأمريكي sector represented the majority of informal employment (26%), followed by workers who work for their own account (17%) and those who works for households without pay (1%).

According to the study, informal employment is concentrated in crafts (30%), services and sales (24%), machine operators (17%), and primary occupation (9%). Moreover, the results illustrate that the highest percentage of informal employment was registered in the wholesale and retail trade and the repair of engines and motorcycles sector (30.0 %), manufacturing (18.6%), transportation and storage (11.7%), and construction (11.1%).

Al-Hourani et al. (2006) conducted a field study on the “Informal Sector in Jordan”, aimed at identifying the structure and characteristics of this sector and the factors influencing its growth and expansion. It also aimed at providing a public database on this sector, changing the stereotypical attitude towards its employees, and encouraging relevant public authorities to deal with them positively, with a view to gradually integrating them into the formal economy.

The study used the Quota Sampling method, by enumerating the main and secondary categories that make up the sector, and then selecting a sample relatively proportionate in terms of numbers with the assumed sizes of the different categories and distributed across the Kingdom’s governorates. Hence, the sample consisted of 481 persons. It provided data to examine the demographic, social, professional, and organizational characteristics of informal sector workers, the legal status of enterprises in this sector, and the features of the work environment.

The field study, as a theoretical premise, was based on a number of working papers, most notably the paper entitled “The Informal Sector in Developing Countries with Special Reference to Jordan” (Alian, 2005). It defined the informal sector as the business sector that includes workers and small enterprises operating outside regulations and laws. It pointed out that these businesses are not officially registered and are not licensed by the State. The paper cited figures dating back to 1995, which indicated that the contribution of the informal sector to GDP was estimated at approximately 20% and that the contribution of this sector in the employment of labor was estimated at 25% of the workforce in Jordan.

6. Empirical Results

Measuring Informal Economy and Informal Employment

This section presents the conceptual framework of the currency demand approach to measure the informal sector, the specification of the econometric model applied for the purpose of this study. The study estimates the size of the informal economy using the



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من الشعب الأمريكي currency demand approach, The Fully Modified Least Squares (FMOLS)³ method is applied to estimate the currency demand function. However, the study relies on available data from the Department of Statistics (DOS) to measure informal employment.

6.1 Informal Economy

According to theoretical literature, currency demand can be modeled as a function of the interest rate faced by consumers, which accounts for the opportunity cost of holding money; income per capita to account for growth over time; wages or private consumption to account for changing patterns of money holding and government revenues (both tax revenues and non-tax revenues) to proxy changes in the size of the informal economy.

The currency demand equation, which will be applied for estimating the informal economy in Jordan for the 1976-2017 period, includes a set of variables, including currency in circulation as a share of GDP, as a dependent variable. Independent variables include the nominal interest rate paid on demand; per capita income (GDP to population); share of private consumption to GDP; tax revenue, which has multiple definitions (sales tax revenue as a share of GDP and overall tax revenues as a share of GDP) and population.

Two specific tax variables, as well as lagged versions of these variables, are employed: Sales tax rates as a percentage of GDP, since such indirect taxes affecting commerce might create two-sided incentives for both entrepreneur and customer to move into the informal sector; and overall tax revenue, which will be considered as a percentage of GDP. Tax revenues, rather than non-tax revenues, are employed, since they might better reflect the actual tax burden.

During the period under consideration, the Jordanian economy experienced a number of external and internal shocks that may have introduced structural shifts in the economy. For this reason, the following dummy variables were included in the model to capture any possible structural breaks:

D1989 = dummy variable for the severe economic crisis in 1989.

D2003 = dummy variable for the Second Gulf War in 2003.

D2008 = dummy variable for the global financial crisis in 2008.

D2012 = dummy variable for the Syrian conflict in 2012.

³ The FMOLS regression was originally designed by Phillips and Hansen (1990) to provide optimal estimates of co-integrating regressions. The method modifies least squares to account for serial correlation effects and for the endogeneity in the regressors that results from the existence of a co-integrating relationship.



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من الشعب الأمريكي The Gulf War and Syrian conflict dummy variables have been taken into consideration, as the size of informal sector can be driven by small entrepreneurs, who are either social holdouts or economic and political refugees.

Economic theory has determined a number of different factors that might influence the ratio of cash holdings. To account for these factors, the model introduces a number of variables, such as the proportion of final consumption expenditure in national income (to capture changing payment and money holding patterns).

Real GDP per capita is used as a scale variable to account for changes in income and wealth, while private consumption as a share of GDP corrects changes in consumer behavior. Under the assumption that the informal economy uses currency to conclude transactions and that the income velocity of money in the informal economy is the same as it is in the formal economy, the velocity of money can be defined as the ratio of income to the quantity of money.

When the variables that stimulate informal economic activities are assigned to their respective lowest historical values (i.e. zero), the regression equation yields the estimate of the demand for currency of the formal economy. It is then possible to estimate currency holdings with or without informal economic activity. The difference produces an estimate of the currency held in the informal economy, which, when multiplied by the income velocity of money, gives an indication of the size of the informal economy.

To estimate the size of the informal economy, two equations based on our regression model will be estimated. We first estimate the full model (FM) equation, which contains both formal and informal economy variables and yields the estimates of currency demand in both (informal and formal economies). The second estimate is the restricted model (RM), which represents the formal economy and yields the estimates of currency demand for the formal economy alone – that is, excluding informal economy variables (both sales tax and overall tax revenues). The difference (FM - RM) yields the currency holdings in the informal economy. When this is multiplied by the transaction velocity of money, V ($V = y/c$), the estimation of the size of the informal economy is obtained.

6.1.1 Estimating the Informal Sector

Following the currency demand approach, and using the regression equation, the estimated currency demand is calculated in three different ways: first, assigning the sales tax revenue; second, assigning the total tax revenue; and third, without assigning any tax variable.

The size of the informal economy was estimated for Jordan using three different estimates, which are used to determine the robustness of the results. Different estimates



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من الشعب الأمريكي have been obtained due to applying different models and different proxies of factors that stimulate the informal economy (i.e. taxes) as follows:

Model 1: Estimating the currency demand using the general sales tax vs. estimating the currency demand without including any taxes:

The former estimate yields the currency demand for both informal and formal economies, as the factor that stimulates the informal economy (sales tax) was included. Meanwhile, the latter estimate yields the currency demand in the formal economy alone, as the factors that stimulate the informal economy are excluded, in which case there is no tendency for the informal economy to materialize. The difference between the two estimates yields the currency demand in the informal economy, which is then multiplied by the velocity of money. As such, the size of the informal sector is obtained. Table 6.1 below shows the size of the informal economy using the difference between the estimated currency demand with the sales tax revenue and the estimated currency demand without including any taxes.

Table 6-1: Model 1*: Size of the Informal Economy

Year	GDP (Million JOD)	GDP growth rate	GDPI	GDPI growth rate	GDPI as a % of GDP
1976	567.3	-	174.9	-	30.8
1977	690.4	21.7	199.5	14.0	28.9
1978	795.4	15.2	230.4	15.5	29.0
1979	982.5	23.5	282.9	22.8	28.8
1980	1164.8	18.6	297.1	5.0	25.5
1981	1448.7	24.4	379.0	27.6	26.2
1982	1650.0	13.9	404.4	6.7	24.5
1983	1786.7	8.3	386.7	-4.4	21.6
1984	1909.7	6.9	421.3	9.0	22.1
1985	1970.5	3.2	415.4	-1.4	21.1
1986	2240.5	13.7	457.5	10.1	20.4
1987	2286.7	2.1	483.9	5.8	21.2
1988	2349.5	2.8	523.7	8.2	22.3
1989	2425.4	3.2	593.0	13.2	24.5



1990	2760.9	13.8	642.7	8.4	23.3
1991	2958.0	7.1	697.9	8.6	23.6
1992	3610.5	22.1	802.9	15.0	22.2
1993	3884.2	7.6	891.7	11.1	23.0
1994	4357.5	12.2	964.1	8.1	22.1
1995	4714.7	8.2	1103.2	14.4	23.4
1996	4911.3	4.2	1231.7	11.7	25.1
1997	5137.4	4.6	1285.1	4.3	25.0
1998	5609.9	9.2	1460.5	13.7	26.0
1999	5778.1	3.0	1400.4	-4.1	24.2
2000	5998.6	3.8	1391.8	-0.6	23.2
2001	6363.7	6.1	1559.2	12.0	24.5
2002	6794.0	6.8	1691.7	8.5	24.9
2003	7228.8	6.4	1649.6	-2.5	22.8
2004	8090.7	11.9	2041.6	23.8	25.2
2005	8925.4	10.3	2138.0	4.7	24.0
2006	10675.4	19.6	2338.6	9.4	21.9
2007	12131.4	13.6	2823.3	20.7	23.3
2008	15593.4	28.5	3307.2	17.1	21.2
2009	16912.2	8.5	3827.3	15.7	22.6
2010	18762.0	10.9	4033.7	5.4	21.5
2011	20476.6	9.1	4302.5	6.7	21.0
2012	21965.5	7.3	4440.8	3.2	20.2
2013	23851.6	8.6	5223.5	17.6	21.9
2014	25437.1	6.6	5799.7	11.0	22.8
2015	26637.4	4.7	6179.9	6.6	23.2
2016	27444.8	3.0	6641.6	7.5	24.2
2017	28903.0	5.3	7312.5	10.1	25.3

Source: Author's calculations



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من الشعب الأمريكي

* Model 1 is the estimated value of currency demand assigning the sales tax versus the estimated value of currency demand without assigning taxes.

Model 2: Estimating the currency demand using the overall tax vs. estimating the currency demand without including any taxes:

This model is the same as Model 1, with the only difference being that the overall taxes, rather than the sales taxes, were applied. Table 6.2 below shows the size of the informal economy using the difference between the estimated currency demand with the overall tax revenue and the estimated currency demand without including any taxes.

Table 6-2: Model 2*: Size of the Informal Economy

Year	GDP (Million JOD)	GDP growth rate	GDPI	GDPI growth rate	GDPI as a % of GDP
1976	567.3	-	234.3	-	41.3
1977	690.4	21.7	264.6	13.0	38.3
1978	795.4	15.2	301.9	14.1	38.0
1979	982.5	23.5	365.8	21.2	37.2
1980	1164.8	18.6	379.5	3.7	32.6
1981	1448.7	24.4	478.0	26.0	33.0
1982	1650.0	13.9	510.4	6.8	30.9
1983	1786.7	8.3	484.2	-5.1	27.1
1984	1909.7	6.9	523.0	8.0	27.4
1985	1970.5	3.2	513.6	-1.8	26.1
1986	2240.5	13.7	561.4	9.3	25.1
1987	2286.7	2.1	517.5	-7.8	22.6
1988	2349.5	2.8	432.7	-16.4	18.4
1989	2425.4	3.2	431.1	-0.4	17.8
1990	2760.9	13.8	481.7	11.7	17.5
1991	2958.0	7.1	515.4	7.0	17.4
1992	3610.5	22.1	685.3	33.0	19.0
1993	3884.2	7.6	977.8	42.7	25.2
1994	4357.5	12.2	1110.0	13.5	25.5



1995	4714.7	8.2	1260.7	13.6	26.7
1996	4911.3	4.2	1401.1	11.1	28.5
1997	5137.4	4.6	1460.1	4.2	28.4
1998	5609.9	9.2	1651.7	13.1	29.4
1999	5778.1	3.0	1580.5	-4.3	27.4
2000	5998.6	3.8	1563.9	-1.1	26.1
2001	6363.7	6.1	1746.3	11.7	27.4
2002	6794.0	6.8	1891.2	8.3	27.8
2003	7228.8	6.4	1837.2	-2.9	25.4
2004	8090.7	11.9	2260.5	23.0	27.9
2005	8925.4	10.3	2361.4	4.5	26.5
2006	10675.4	19.6	2573.3	9.0	24.1
2007	12131.4	13.6	3091.8	20.2	25.5
2008	15593.4	28.5	3606.5	16.7	23.1
2009	16912.2	8.5	4144.5	14.9	24.5
2010	18762.0	10.9	4350.7	5.0	23.2
2011	20476.6	9.1	4620.2	6.2	22.6
2012	21965.5	7.3	4746.8	2.7	21.6
2013	23851.6	8.6	5414.3	14.1	22.7
2014	25437.1	6.6	5926.8	9.5	23.3
2015	26637.4	4.7	6686.0	12.8	25.1
2016	27444.8	3.0	6806.3	1.8	24.8
2017	28903.0	5.3	7283.6	7.0	25.2

Source: Author's calculations

* Model 2 is the estimated value of currency demand assigning the total tax revenue versus the estimated value of currency demand without assigning taxes.



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من الشعب الأمريكي Model 3: Estimating the currency demand without including any taxes vs. the actual currency demand data:

The former estimate yields the currency demand in the formal economy alone, as the factors that stimulate the informal economy are excluded, in which case there is no tendency for the informal economy to materialize, while the actual data of the currency demand produced by the Central Bank of Jordan (CBJ) represents the demand on currency by both informal and formal economies. Table 6.3 below shows the size of the informal economy using the difference between the estimated currency demand without including any taxes and the actual data of the currency demand.

Table 6-3: Model 3*: Size of the Informal Economy

Year	GDP (Million JOD)	GDP growth rate	GDPI	GDPI growth rate	GDPI /GDP Ratio
1976	567.3	-	148.5	-	26.2
1977	690.4	21.7	181.6	22.3	26.3
1978	795.4	15.2	211.8	16.7	26.6
1979	982.5	23.5	257.9	21.8	26.3
1980	1164.8	18.6	282.4	9.5	24.3
1981	1448.7	24.4	348.7	23.5	24.1
1982	1650.0	13.9	369.8	6.1	22.4
1983	1786.7	8.3	360.1	-2.6	20.2
1984	1909.7	6.9	382.9	6.3	20.1
1985	1970.5	3.2	395.1	3.2	20.1
1986	2240.5	13.7	433.4	9.7	19.3
1987	2286.7	2.1	436.5	0.7	19.1
1988	2349.5	2.8	408.0	-6.5	17.4
1989	2425.4	3.2	445.5	9.2	18.4
1990	2760.9	13.8	532.8	19.6	19.3
1991	2958.0	7.1	581.2	9.1	19.7
1992	3610.5	22.1	715.3	23.1	19.8
1993	3884.2	7.6	902.4	26.2	23.2
1994	4357.5	12.2	1035.5	14.7	23.8



1995	4714.7	8.2	1164.9	12.5	24.7
1996	4911.3	4.2	1289.7	10.7	26.3
1997	5137.4	4.6	1359.9	5.4	26.5
1998	5609.9	9.2	1556.6	14.5	27.8
1999	5778.1	3.0	1529.0	-1.8	26.5
2000	5998.6	3.8	1583.5	3.6	26.4
2001	6363.7	6.1	1758.3	11.0	27.6
2002	6794.0	6.8	1905.9	8.4	28.1
2003	7228.8	6.4	1931.8	1.4	26.7
2004	8090.7	11.9	2340.0	21.1	28.9
2005	8925.4	10.3	2493.8	6.6	27.9
2006	10675.4	19.6	2816.6	12.9	26.4
2007	12131.4	13.6	3343.0	18.7	27.6
2008	15593.4	28.5	4034.6	20.7	25.9
2009	16912.2	8.5	4553.9	12.9	26.9
2010	18762.0	10.9	4915.0	7.9	26.2
2011	20476.6	9.1	5370.5	9.3	26.2
2012	21965.5	7.3	5687.8	5.9	25.9
2013	23851.6	8.6	6106.0	7.4	25.6
2014	25437.1	6.6	6588.2	7.9	25.9
2015	26637.4	4.7	6979.0	5.9	26.2
2016	27444.8	3.0	7272.9	4.2	26.5
2017	28903.0	5.3	7948.3	9.3	27.5

Source: Author's calculations

* Model 3 is the estimated value of currency demand without assigning taxes versus the actual value of currency demand.

Using the regression output from the aforementioned equations, the size of the informal economy was estimated for Jordan using the models detailed above. The nominal GDP



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من الشعب الأمريكي (GDP) and the ratio of the informal economy's nominal GDP to nominal GDP (GDPI/GDP) are calculated and presented for the five models in Table 6.4 below.

Model 1: Is the estimated value of currency demand assigning the sales tax versus the estimated value of currency demand without assigning taxes.

Model 2: Is the estimated value of currency demand assigning the total tax revenue versus the estimated value of currency demand without assigning taxes.

Model 3: Is the estimated value of currency demand without assigning taxes versus the actual value of currency demand.

Table 6-4: The size of the Formal (GDP) and Informal Economy (GDPI) Using Three Models

Year	GDP (Million JOD)	Model 1: GDPI/GDP	Model 2: GDPI/GDP	Model 3: GDPI/GDP
1976	567.3	30.8	41.3	26.2
1977	690.4	28.9	38.3	26.3
1978	795.4	29.0	38.0	26.6
1979	982.5	28.8	37.2	26.3
1980	1164.8	25.5	32.6	24.3
1981	1448.7	26.2	33.0	24.1
1982	1650.0	24.5	30.9	22.4
1983	1786.7	21.6	27.1	20.2
1984	1909.7	22.1	27.4	20.1
1985	1970.5	21.1	26.1	20.1
1986	2240.5	20.4	25.1	19.3
1987	2286.7	21.2	22.6	19.1
1988	2349.5	22.3	18.4	17.4
1989	2425.4	24.5	17.8	18.4
1990	2760.9	23.3	17.5	19.3
1991	2958.0	23.6	17.4	19.7
1992	3610.5	22.2	19.0	19.8
1993	3884.2	23.0	25.2	23.2



1994	4357.5	22.1	25.5	23.8
1995	4714.7	23.4	26.7	24.7
1996	4911.3	25.1	28.5	26.3
1997	5137.4	25.0	28.4	26.5
1998	5609.9	26.0	29.4	27.8
1999	5778.1	24.2	27.4	26.5
2000	5998.6	23.2	26.1	26.4
2001	6363.7	24.5	27.4	27.6
2002	6794.0	24.9	27.8	28.1
2003	7228.8	22.8	25.4	26.7
2004	8090.7	25.2	27.9	28.9
2005	8925.4	24.0	26.5	27.9
2006	10675.4	21.9	24.1	26.4
2007	12131.4	23.3	25.5	27.6
2008	15593.4	21.2	23.1	25.9
2009	16912.2	22.6	24.5	26.9
2010	18762.0	21.5	23.2	26.2
2011	20476.6	21.0	22.6	26.2
2012	21965.5	20.2	21.6	25.9
2013	23851.6	21.9	22.7	25.6
2014	25437.1	22.8	23.3	25.9
2015	26637.4	23.2	25.1	26.2
2016	27444.8	24.2	24.8	26.5
2017	28903.0	25.3	25.2	27.5

Source: Author's calculations

The estimates of the three models seem comparable, as all three suggest a high ratio of the informal economy as a percentage of GDP during the 1976-1985 period, ranging from (%21.1-%30.8) for model 1, (%26.1-%41.3) for model 2 and (%20.1-%26.6) for model 3. The average GDPI/GDP ratio for the three models stands at 27.4 percent, accompanied



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من الشعب الأمريكي with a nominal GDP growth of 14.9 percent. One can recognize that despite the high nominal GDP growth rates, a high ratio of informal activities exists, which lends strong support to the positive relationship between informal and formal economies.

The GDPI/GDP ratio decreased during the 1986-1995 period for all models at an average of 10.0 percentage points compared to the previous period, reaching 22.1 percent. Nevertheless, the GDPI/GDP ratio remained relatively high. It is worth noting that this ratio was accompanied with moderate nominal GDP growth rates, which averaged 8.3 percent during the same period.

During the 1996-2005 period, the average GDPI/GDP ratio amounted to 26.4 percent for the three models; ranging from 24.5 percent for Model 1 to 27.5 for Model 2, along with a nominal growth rate of 8.2 percent for the same period. The trend of the informal economy was such that there was a positive relationship between GDP growth rates and the informal economy for the 1996-2005 period.

The GDPI/GDP ratio for the 2006-2017 period stagnated at a higher rate, amounting to an average of 24.2 percent; with an average of 22.4 percent for Model 1, and 26.4 for Model 2. It worth highlighting that during this period, the global financial crisis and the Syrian conflict had severely affected economic growth rates and the fiscal stance as well.

The analysis of empirical results for the entire period under consideration (1976-2017) shows that the average GDPI/GDP ratio for the three models amounted to 24.9 percent; with 23.8 percent for Model 1, 26.4 for Model 2 and 24.5 for Model 3. The results seem to be consistent with the aforementioned World Bank estimates, but they deviate from IMF estimates of 17.1 and ESC estimates of 10.1. IMF estimates employ the MIMIC method, which could justify the modest deviation from our results. However, ESC estimates using the currency demand approach deviate significantly from ours; this could be attributed to the dummy variables used in our estimates, in addition to the differences in proxy variables employed.

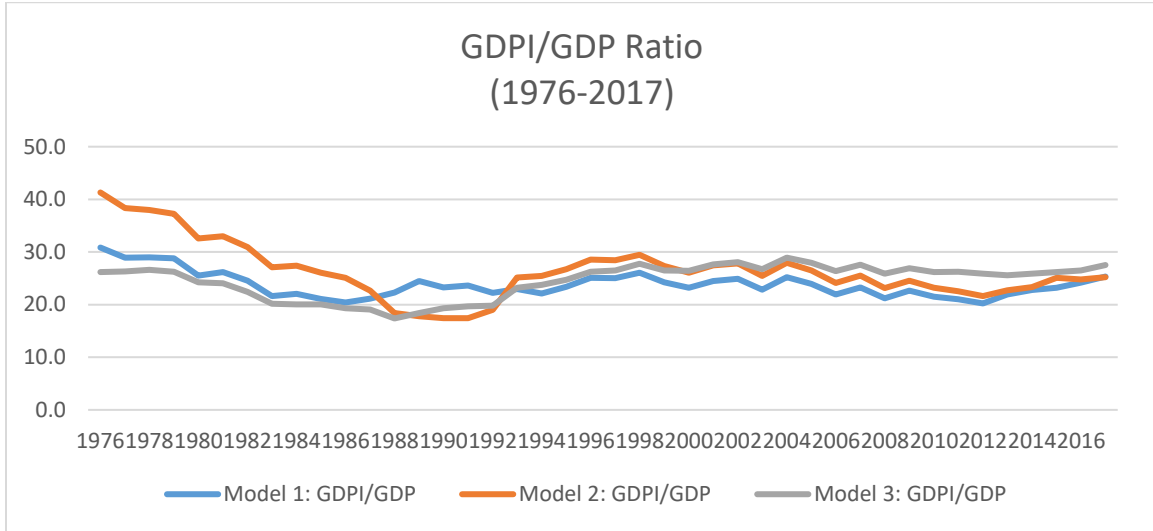
The figure below shows the estimated size of informal economy for our three models. Despite differences in absolute figures which caused by different proxies used, the models seems to have the same trend, starting at higher rates and following a downward trend until early 1990s, before picking up again and saturated at relatively higher levels. The marked discrepancies for model 2 owing to the informal sector proxy used, which is the overall tax revenue, compared to models 1 and 3 where only sales tax was introduced for the former, and actual currency demand was implemented instead of estimated one for the latter.

In our view, the most realistic model is model 3, because we are comparing actual figures of currency demand with an estimated one. While in models 1 and 2, we are comparing



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من الشعب الأمريكي two estimated currency demand, one with taxes and the other one is without. Nevertheless, the most important implication of the results is that informal sector is significant and permanent, consists largely of the formerly disadvantaged and vulnerable groups of society. Which should not be viewed as a marginal sector but as a basic component of the total economy.



6.2 Informal Employment:

As the size of the informal sector increases, a rise in informal employment can be observed. Informal employment could also be found in the formal sector, which justifies the discrepancy between the share of informal sector to GDP and the share of informal employment to total employment.

Many statistical departments made positive developments in the use of labor force surveys as a source of data on employment in the informal sector (ILO 2002b). Recently, the DOS made significant progress when it adapted the labor force survey by including more questions to capture informal employment. However, the DOS did not produce any official statistics on informal employment, as they are planning to further develop the survey in order to fully capture the size and characteristics of informal employment, according to DOS officials.

Unlike in the formal sector, where time series data can be produced, informal employment is obtained as part of total employment, which is usually measured in relation to a short reference period. Defining informal employment is a complex issue. This study will focus on the “legalistic” perspective to determine the size of informal



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من الشعب الأمريكي employment. Literature on informality considers an employment relationship to be informal if the employer does not register the job in order to avoid the payment of taxes and social security contributions. Furthermore, the Labor Code stipulates that all employees must sign a written contract and provide their “labor book” to the employer. Verbal agreements are explicitly prohibited. Therefore, this study will also use the verbal agreements of dependent workers as an indication of informal employment.

In order to estimate the size of informal employment, the study utilized the adapted version of the Labor Force Survey (LFS 2017), which includes new questions capable of capturing informal employment. Two main questions will be looked into to produce separate estimates of informal employment in Jordan: 1) The question of whether employers or self-employed workers pay social security contributions from their wage; and 2) The question of whether employers have signed written contracts with their dependent employees.

According to the answers provided by respondents on social security contributions, as reported by the Labor Force Survey 2017 (see figure below), approximately 23.7 percent of Jordanians are working informally. By comparison, around 84.7 percent of non-Jordanian workers are informal. Given the nationality structure of employment in Jordan, which shows that around 64.0 percent of workers are Jordanians and 36.0 percent are non-Jordanian, overall total informal employment in 2017 was estimated at 45.7 percent.

Regarding verbal agreements, the answers of respondents show that about 18.3 percent of Jordanians are informal workers. By comparison, about 54.0 percent of non-Jordanian workers are informal. Given the nationality structure of employment in Jordan, overall total informal employment in 2017 was estimated at 31.1 percent.

It worth mentioning that according to the World Bank’s recent Jobs Diagnostic (not yet published), informal employment was estimated at 60.0 percent in 2017. Recent data from the Household Income and Expenditure Survey for the 2017-2018 period revealed that around 50.0 percent of Jordanian workers in the poorest decile have informal employment.

LFS 2017 request

DOS LFS 2017 tables 23-5-2018 (DOS response) – Excel

Jordanians

Q254A: Employer paid social security by education

Education	Employer paid social security
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	Yes	No	Don't know
Illiterate	43.4	52.5	4.1
Less than secondary	63.9	34.9	1.2
Secondary	74.5	24.0	1.5
Intermediate diploma	83.0	16.1	0.9
Bachelor and above	90.7	8.3	1.0
Total	75.2	23.7	1.1

Jordanians

Q251: Contract type by education

Education	Contract Type	
	Written Contract	Verbal Contract
Illiterate	57.2	42.8
Less than secondary	71.7	28.3
Secondary	82.8	17.2
Intermediate diploma	89.2	10.8
Bachelor and above	94.7	5.3
Total	81.7	18.3

Non-Jordanians

Q254A: Employer paid social security by nationality

Nationality	Employer paid social security		
	Yes	No	Don't know
Egyptian	12.2	87.5	0.3
Syrian	5.4	92.5	2.2
Iraqi	43.0	53.7	3.3
Other Arab	38.3	59.3	2.4



Non-Arab	14.7	80.3	5.0
Total	13.3	84.7	2.0

Non-Jordanians

Q251: Contract type by nationality

Nationality	Contract Type	
	Written Contract	Verbal Contract
Egyptian	41.1	58.9
Syrian	28.3	71.7
Iraqi	71.8	28.2
Other Arab	53.5	46.5
Non-Arab	85.5	14.5
Total	46.0	54.0

7. Evidence-Based Characteristics of Informality in Jordan

The evidence-based results and findings were concluded from focus group discussions and in-depth interviews with male and female informal sector participants, including the youth. The sample covered different occupations across the Kingdom's central, northern and southern regions. The target sample of 52 persons, of which 21.2% were females, was geographically distributed, accounting for the relative distribution of the population: 28 persons in the central region, 16 from the northern region, and 8 from the southern region.

The main results showed that individuals who work in the informal sector prefer to remain informal due to their perception of inadequate and insufficient benefits and services obtained from being in the formal sector, compared to the associated costs, both monetary and non-monetary. The tax burden, high registration fees, and inconvenience of completing transactions are common factors across all segments of the study, which prevent informal workers from engaging in formal activities. Overall, the procedures of business start-up and licensing, coupled with the relatively high costs, are dissuading informal workers from formalizing their work.



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من الشعب الأمريكي **7.1 Informal Workers and Informal Enterprises**

The age structure of informal sector participants shows that 88.5% are in the (20-49) age group, which means that they can broadly be classified as “young”. The (20-39) age group accounts for 57.6%, while the (40-49) age group accounts for 30.8%. In terms of marital status, 69.2% are married, which means that they have families to support.

Table (7-1): Distribution of informal workers according to age group and marital status

Age group	Marital Status			Total (number & percentage)	Total Females	Female %
	Single	Married	Divorced/ Widowed			
20-29 years	12 (2)*	3	-	15 (28.8%)	2	18.2%
30-39 years	1	13 (5)*	1 (1)*	15 (28.8%)	6	54.5%
40-49 years	1 (1)*	14 (2)*	1	16 (30.8%)	3	27.3%
50 years and above	-	6	0	06 (11.5%)	-	00.0%
Total	14	36	2	52 (100%)	11	100%
Percentage	26.9%	69.2%	3.8%	100%	21.1%	

(*) Figures in brackets indicate the number of females out of the total number of males and females.

The educational level of more than two-thirds of the sample (i.e. 67.3%) is secondary certificate and below, while 32.7% of them are intermediate and university degree holders, indicating that highly educated people are also engaged in informal activities, due to the mismatch between the output of the educational system and labor market needs.



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Table (7-2): Distribution of informal workers according to educational level and age group

Educational Level	Age Group				Total	%
	20-29 years	30-39 years	40-49 years	50 years and above		
Primary/preparatory	5	3	4	2	14	26.9%
Apprenticeship	-	1	-	-	1	01.9%
Secondary	6	7	5	2	20	38.5%
Intermediate diploma	1	-	4	1	6	11.5%
University	3	4	3	1	11	21.2%
Total	15	15	16	6	52	100%

The empirical results indicate that high fees and tax rates are the main reason behind operating in the informal sector. Most informal sector participants are financially incapable of meeting such high fees and tax rates. More than one third (38.9%) of the sample are operating in the informal economy due to lack of financial capability, and 26.4% work informally due to high fees and taxes. This is in line with the general assessment that the majority of persons who work in unlicensed activities suffer from difficult economic and financial circumstances. This fact reveals a very important reason behind the latest expansion in informal activities: The lack of access to finance is considered to be one of the main reasons behind the increase in informal activities and informal employment. Many informal sector participants are unaware of the available sources of funding, and if they do secure funding, high interest rates and collaterals act as disincentives for individuals to fund their activities within the formal sector.

In terms of the type of activities practiced by informalists, the results show that 21.2% work in household maintenance and construction. Handicrafts, tourism and by-services account for 19.2%; sales account for 19.2%; knitting and food processing account for 15.4%; transportation services and mechanics account for 15.4%; and intellectual professions represent 9.6%. As for the organizational setting of these activities, home-based workers account for 36.5%; street vendors 32.7%; workshop/shop 23.1%, and, finally, stalls with 7.7%.



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Table (7-3): Distribution of informal workers according to the type of work and enterprise

Work Type	Organization Type				Total	%
	Home-based	Workshop/ Shop	Stalls	Street Vendor		
Intellectual professions	5	-	-	-	5	9.6%
Handicrafts, tourism and by-services	5	2	2	1	10	19.2%
Knitting and food processing	6	1	-	1	8	15.4%
Sales and brokerage	2	1	1	6	10	19.2%
Transportation services and mechanics	-	2	-	6	8	15.4%
Household maintenance and construction	1	6	1	3	11	21.2%
Total	19	12	4	17	52	100%
Percentage	36.5%	23.1%	7.7%	32.7%	100%	

As for the duration of operating the informal sector, half of sample members (48.1% to be precise) have started their work since 2010. However, almost 27.0 percent of them have joined the informal sector during the last three years. Surprisingly, about 23.1 percent of the sample have been working in the informal sector for more than 15 years and have a stable work since then, mostly in knitting and food processing, handicrafts, tourism, and by-services.

Table (7-4): Distribution informal workers according to work type and date of joining the informal sector

Work Type	Date of Work Commencement				
	2000 and before	2001-2009	2010-2012	2013-2015	2016-2018
Intellectual professions	-	3	1	-	1
Handicrafts, tourism and by-services	4	-	2	3	1
Knitting and food processing	4	1	-	1	2
Sales and brokerage	1	-	3	3	3
Transportation services and mechanics	1	1	1	1	4
Household maintenance and	2	3	-	3	3



construction					
Total	12	8	7	11	14
Percentage	23.1%	15.4%	13.5%	21.2%	26.9%

The choice of activities practiced reflects the fact that informalists are motivated by their specializations, expertise and hobbies when selecting the type of their informal activities. 23.3% of respondents were operating in activities related to their specialization, expertise or hobby, such as teacher, who give private lessons or drivers who use their own private vehicle for public transportation.

Regarding the structure of workers in informal enterprises, empirical results show that 91.4% are owners of informal enterprises; specifically, 84.6% are owners, 5.8% are co-owners and only 9.6% are workers (wage earners). These results imply that most workers in informal sector are self-employed. Moreover, the results show that most partners and workers are relatives, which suggests that informal enterprises are most likely family enterprises.

Table (7-5): Type of workers in informal enterprises

Work Type	Owner	Partner	Worker	Total
Intellectual professions	5	-	-	5
Handicrafts, tourism and by-services	7	2	1	10
Knitting and food processing	8	-	-	8
Sales and brokerage	8	1	1	10
Transportation services and mechanics	8	-	-	8
Household maintenance and construction	8	-	3	11
Total	44	3	5	52
Percentage	84.6%	5.8%	9.6%	100%

The number of wage earners in informal sector enterprises reveals the extent to which informal enterprises are capable of creating job opportunities. Most owners prefer not to employ workers as a cost-cutting strategy. Enterprise owners only employ paid workers if they are obliged to. Therefore, it is not surprising that almost two-thirds (63.8%) of our sample do not employ any workers (wage earners), while 14.9% of owners employ only one worker, 12.8% employ two workers, and only 4.3% employ three or four workers.



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من الشعب الأمريكي Table (2-7) shows that the occupations in which informal wage earners are mostly concentrated are household maintenance and construction (5 workers), knitting and food processing, sales and brokering (4 workers each), handicrafts, tourism and by-services (3 workers).

Table (7-6): Distribution of informal workers according to work type and the number of wage earners in the enterprise

Work Type	None	One	Two	Three	Four	Total
Intellectual professions	5	-	-	-	-	5
Handicrafts, tourism and by-services	6	1	1	-	1	9
Knitting and food processing	4	2	1	1	-	8
Sales and brokerage	5	3	1	-	-	9
Transportation services and mechanics	7	-	1	-	-	8
Household maintenance and construction	3	1	2	1	1	8
Total	30	7	6	2	2	47
Percentage	63.8%	14.9%	12.8%	4.3%	4.3%	100%

The main reason behind engaging in the informal sector is the lack of job opportunities, which came in the first rank at a percentage of (21.9%), securing a decent income or improving living standards (15.1%), personal or family circumstances that encourage people to undertake this type of work (11%), and the opportunity to gain or possess an enterprise (9.6%). However, 13.6% of informalists operate in informal activities due to their lack of any kind of experience or certificates, which forces them to work in inherited occupations. Meanwhile 5.5% believe it is easy for them to enter and exit informal activities, while enjoying working freely due to their circumstances.

Table (7-7): Distribution of informal workers according to the reason of selecting the work they practice

Reason	Frequency	Percentage
Specialization, expertise or hobby	17	23.3%
Lack of a job opportunity	16	21.9%
Securing a decent income or improving living conditions	11	15.1%
Inherited occupation	5	6.8%
Lack of experience or certificates	5	6.8%



Opportunity to gain or possess an enterprise	7	9.6%
Personal or family circumstances	8	11%
Easiness or freedom of work	4	5.5%
Total	73	100%

7.2 Financial Features and Access to Finance

The results show that 72.3% of informal sector operators have established their enterprises with an amount of capital not exceeding JD 1,000. In addition, about 48.9% of informal enterprises started their operations with JD 250.0 and less. This implies a very weak potential for these enterprises to develop and grow. Informalists stated that this very small capital is barely enough to buy simple tools to begin their work.

The remaining share of enterprises whose capital amount exceeds 1,000 dinars, are divided into two categories: 1) 19.1% of them have a capital amount ranging between JD 1,001 and 5,000. Owners of this type of enterprise stated that the tools they need in their activities are rather expensive but necessary, such as refrigerators, knitting machines, tile polishing machines, and the like; 2) The remaining 8.5% of enterprises are operating their business with a capital of more than JD 5,000, as they need to buy a car or a truck, which is usually expensive. However, when comparing the starting capital amount to the current capital, the results show that about 29.8 percent of informal enterprises have improved their amount of capital as they moved to a higher capital category.

Table (7-8): Distribution of self-employed workers in the informal sector, according to work type and capital amount of their enterprises

Work Type	0-250	251-500	501-1,000	1,001-5,000	5,001 and more	Total
Intellectual professions	5					5
Handicrafts, tourism and by-services	6	-	1	1	1	9
Knitting and food processing	2	-	3	3	-	8
Sales and brokerage	5	1	1	2	-	9
Transportation services and mechanics	-	-	3	2	3	8
Household maintenance and construction	5	2	-	1	-	8
Total	23	3	8	9	4	47



Percentage	48.9%	6.4%	17%	19.1%	8.5%	100%
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Regarding sources of finance for informal activities, the results indicate that about 74.5% of the sample rely on self-finance to fund their enterprises, either from current income, pensions or savings. Those who rely on their families to finance their enterprises come in second place at 12.8%. Only 12.8% were able to get financing from either banks or other funding institutions. The results seem reasonable, as banks and funding institutions require official records in order to lend enterprises. Those who declared that their source of funding came from banks and funding institutions have clarified that they were able to receive funding in the form of consumption loans.

Table (7-9): Distribution of self-employed workers in the informal sector, according to work type and source of enterprise funding

Work Type	Government Institution	Bank	Funding Institution	Financier	Friends	Relatives	Family	Self-finance	Total
Intellectual professions	-	-	-	-	-	-	-	5	5
Handicrafts, tourism and by-services	-	2	-	-	-	-	2	5	9
Knitting and food processing	-	-	2	-	-	-	1	5	8
Sales and brokerage	-	-	1	-	-	-	1	7	9
Transportation services and mechanics	-	1	-	-	-	-	1	6	8
Household maintenance and construction	-	-	-	-	-	-	1	7	8
Total	-	3	3	-	-	-	6	35	47
Percentage	0.0%	6.4%	6.4%	0.0%	0.0%	0.0%	12.8%	74.5%	100%

7.3 Organization Level and Marketing Methods

The study addressed four indicators regarding the organization level of informal enterprises as follows:

- In terms of using regular and independent bookkeeping or financial records, the results show that only 10.6% of informal enterprises use some form of



من الشعب الأمريكي bookkeeping, while the majority (89.4%) do not. Some owners stated that they do not need to keep such financial records due to their small capital and the small scale of their activities. These results seem to be consistent with the findings on the starting capital of informal enterprises, which showed that the majority of informal enterprises started with very small capital.

- In terms of obtaining payment facilities from suppliers, the results show that 29.8% of informal enterprise owners do receive payment facilities or overdraft accounts from suppliers, compared 40.4% who do not receive any kind of payment facilities. Another 29.8 percent do not deal with suppliers at all. This indicator assumes that if a person receives payment facilities, they have a regular relationship with the supplier, they are trustworthy and their obligations are regularly paid.
- In terms of providing payment facilities by informal operators to customers, buyers or distributors, surprisingly, about 70.2 percent of informal operators do provide some type of facilities. Those who provide such facilities stated that this approach serves as a marketing tool for their products.
- The fourth indicator is whether informal operators have drawn up contracts for the services or products they deliver. It was found that 25.5 percent of informal operators do use some type of delivery contracts, while 51.1% have never used such types of contracts. This indicator does not apply to the remaining percentage, as their products are sold to individuals only, and they do not deal with wholesale traders or suppliers.

Table (7-10): Distribution of self-employed workers in the informal sector according to organization type and level of organization

Organization Type	Use an accounting system	Receive payment facilities	Draw up or contracts invoices	Provide payment facilities
Home-based	2	6	7	15
Workshop/shop	-	2	-	3
Stalls	-	2	-	3
Street vendors	2	2	4	9
Total	5 of 47	14 of 47 (not applied on 14)	14 of 47 (not applied on 11)	14 of 47 (not applied on 12)
Percentage	10.6%	29.8%	25.5%	70.2%

The results also show that wholesalers are the main suppliers for informal operators, as 34.0% percent of informal enterprises obtain their supplies from wholesalers. Retailers



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من الشعب الأمريكي and individuals came in second and third place as suppliers for informal operators, with 17.0% and 15.0%, respectively.



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Table 7-11: Distribution of self-employed workers in the informal sector according to organization type and the source of supplies

Organization Type	Retailers	Wholesalers	Individuals	Not applicable	Total
Home-based	5	4	3	7	19
Workshop/shop	1	4	2	1	8
Stalls	-	2	1	-	3
Street vendors	2	6	1	8	17
Total	8	16	7	16	47
Percentage	17%	34%	15%	34%	100%

In terms of marketing tools and methods, the results revealed that informal enterprises mostly tend to adopt traditional and inefficient methods of marketing. About 40.0% of informal operators depend on direct marketing to consumers, and this method is mainly used by street vendors. Marketing through relatives and friends accounts for 26.7%, with home-based workers using this method the most. Meanwhile, only 16.7% use social media as a marketing tool.

Table (7-12): Distribution of self-employed workers in the informal sector according to organization type and the methods of marketing

Marketing methods	Home-based	Workshop/shop	Stalls	Street vendors	Total	Percentage
Direct to consumers	12	6	3	15	36	40%
Through distributors	3	2	1	2	8	8.9%
Social media sites	8	3	-	4	15	16.7%
Advertisement	-	1	-	1	2	2.2%
Acquaintances, relatives and friends	14	2	-	8	24	26.7%
Through good reputation	1	2	-	-	3	3.3%
By conducting work	-	-	-	1	1	1.1%
By distributing brochures	-	-	-	1	1	1.1%
Total	38	16	4	23	90	100%



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من الشعب الأمريكي **7.4 Income and Revenue of Informal Operators**

Data on monthly average income shows that the revenue of informal operators is to a large extent modest. The income of more than one third of the sample (38.5%) is below the minimum wage (i.e. JD 220). Moreover, more than three-quarters of the sample (78.9%) receive an income that is equal to or less than JD 400. The category whose income exceeds 500 dinars is limited to 7.7% of the sample, while the highest income in the sample is JD 1,200 only.

Table (7-13): Distribution of self-employed workers in the informal sector according to work type and average monthly income

Work Type	100-150	151-200	201-300	301-400	401-500	501 and more	Total
Intellectual professions	1	1	1	1	1	-	5
Handicraft, tourism and by-services	1	2	1	2	2	2	10
Knitting and food processing	2	1	1	2	2	-	8
Sales and brokerage	1	5	1	2	-	1	10
Transportation services and mechanics	1	2	2	-	2	1	8
Household maintenance and construction	2	1	6	2	-	-	11
Total	8	12	12	9	7	4	52
Percentage	15.4%	23.1%	23.1%	17.3%	13.4%	7.7%	100%

On another note, about two-thirds (65.4%) of the sample of informal sector workers have experienced losses in their work; about 20.6 percent of informal sales workers have suffered from losses, while 8.8% of intellectual workers have suffered from losses.

Regarding the causes of the losses suffered by these informal operators, 32.3% of them stated that negative customer attitude or customers' inability to pay were the main cause of losses. About 14.7% referred to seasonal work and technical breakdowns. 8.7% and 5.9% of the sample mentioned limited returns or high cost, and the distortion of goods or penalties, respectively.



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Table (7-14): Distribution of informal workers who have suffered from losses

Causes of Loss	Frequency	%
Seasonal work or demand	5	14.7%
Technical breakdowns and physical disorders	5	14.7%
Damage of goods/products or competition	4	11.8%
Customer attitude or non-payment	11	32.3%
Limited returns or high cost	3	8.7%
Declined demand for goods or incomplete bookings	4	11.8%
Confiscation of goods or penalties	2	5.9%
Total	34	100%

It is worth noting that income level is highly important, as most informal operators have families to support. In this context, the results show that about 48.1% of informal operators were the only breadwinners of their families, while 46.2% participate in supporting their families.

In terms of the average number of family members, the results indicate that more than half of informal workers (53%) support or participate in supporting families of (2-5) members. In addition, about 38.8% and 8.2% of informal operators are supporting or participate in supporting families of (6-8) members and (9-11) members, respectively. These results indicate that the majority of informal sector workers face a significant burden related to the cost of living.

Table (7-15): Distribution of informal workers according the number of supported family members

Work Type	2-5 members	6-8 members	9-11 members	Total
Intellectual professions	3	1	-	4
Handicrafts, tourism and by-services	7	2	-	9
Knitting and food processing	5	2	1	8
Sales and brokerage	2	6	2	10
Transportation services and mechanics	3	4	-	7
Household maintenance and construction	6	4	1	11
Total	26	19	4	49
Percentage	53%	38.8%	8.2%	100%



من الشعب الأمريكي 7.5 Working Conditions and Skills Required

In terms of the number of working days, the results indicate that sample members are free to determine the number of their working days per month. About 53.8% of them, across all types of work, are committed to work throughout the month, including Fridays and holidays. However, about 36.8% work for one and two weeks per month, and most members of this category are home-based workers or street vendors, while 17.3 percent work for two to three weeks.

Regarding the number of working hours per day, the study shows disparate results. The largest group (44.2%) works longer hours than normal (12 hours a day). This reflects their interest in obtaining the highest possible income at the expense of their relaxation. The second group (26.9%) works for 4-6 hours, i.e. nearly half a day or more, while the third group (21.2%) works for a full working day. About 7.7 percent of informal workers work for 2-3 hours as part-timers.

Table (7-16): distribution of informal workers according to the number of working days and hours and the organization type

Number of working days per month	Organization Type				Total	%
	Home-based	Workshop/ shop	Stalls	Street vendor		
7-15 days	7	1	1	6	15	36.8%
16-23 days	2	3	1	3	9	17.3%
24-30 days	10	8	2	8	28	53.8%
Total					52	100%
Number of working hours a day	Home-based	Workshop/ shop	Stalls	Street vendor	Total	%
2-3 hours	3	1	-	-	4	7.7%
4-6 hours	9	1	-	4	14	26.9%
7-8 hours	3	3	1	4	11	21.2%
9-12 hours	4	7	3	9	23	44.2%
Total					52	100%

In terms of whether informal sector workers have any other job in addition to their current work, the results show that 6.9% do have another job, while the majority of these workers (94.1%) only have one job. Some of those who have another job are employees seeking to improve their living standards, while others are intellectual home-based workers who at the same time operate as taxi drivers through a smart application.



من الشعب الأمريكي Regarding frustrations and annoyances faced by informal operators from official authorities, the results show that 28.8% of informal workers suffer from annoyances by official authorities during their work. The majority of these workers are concentrated in the sales, transportation services, mechanics, handicrafts and tourism sectors. These results are consistent with the reported annoyances faced by informal sector workers, particularly those who use their private vehicles for public transportation without a permit.

It is worth mentioning that women seem to be less exposed to annoyances, due to the nature of their occupations, which keep them away from direct interaction with official authorities.

Table (7-17): Distribution of informal workers according to work type and annoyances from official authorities

Work Type	Total “Yes”	Total “No”	No. of Females
Intellectual professions	-	5	1
Handicrafts, tourism and by-services	3	7	3
Knitting and food processing	1	7	5
Sales and brokerage	5	5	1
Transportation services and mechanics	5	3	-
Household maintenance and construction	1	10	1
Total	15	37	11 out of 37
Percentage	28.8%	71.2%	(29.7%)

On the training front, the results show that more than two-thirds of the sample of informal sector workers (69.2%) did not receive any training or attend any courses to practice their current work. Only 30.8% attended training courses, most of whom are concentrated in the handicrafts, tourism and by-services, household maintenance and construction sectors. As for the educational level of trained informal workers, the results show that 50.0% have an intermediate and university diploma; 31.3% have a secondary education; 12.5% have a primary education; and about 6.2% have undertaken an apprenticeship program.

Table (7-18): Distribution of informal workers according to work type and training received

Work Type	Received Training	Did not Receive Training
Intellectual professions	3	2



Handicrafts, tourism and by-services	4	6
Knitting and food processing	3	5
Sales and brokerage	2	8
Transportation services and mechanics	1	7
Household maintenance and construction	3	8
Total	16	36
Percentage	30.8%	69.2%

In terms of the future plans of informal sector participants, the results show that 61.5% do not want to leave their work. In fact, 90.6% of them stated that they are planning to develop their business. Meanwhile, 38.5% of the sample have plans to end their informal activities. About 59.4% of them stated that they are considering retiring and transferring their business to their children. This means that the majority of informal sector workers intend to keep working informally and to develop their work or to transfer their work to their children.

Table (7-19): Distribution of informal workers according to work type and future plans

Work Type	Think of leaving work	Think of developing work	Think of transferring work to his children
Intellectual professions	1	3	3
Handicrafts, tourism and by-services	3	7	4
Knitting and food processing	-	8	5
Sales and brokerage	5	3	3
Transportation services and mechanics	4	4	2
Household maintenance and construction	7	4	2
Total	20 out of 52	29 out of 32	19 out of 32
Percentage	38.5%	90.6%	59.4%

On the female front, both the interviews and the focus groups indicated that women are directed to the informal sector due to reasons that, in some cases, are similar to those faced by the youth, and in other cases due to reasons specific to women themselves.



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من الشعب الأمريكي Women, especially married women with families, find it easier to work from their homes or informally in order to meet their families' needs and requests. Women with babies are unable to leave them alone and cannot afford the cost of daycare or paying someone to watch over them. This appeared to be a persistent obstacle facing women seeking work. Another common issue is that, in some cases, women are not comfortable working in certain environments for long hours. Others mentioned that their families and traditions still prevent them from getting a job in certain sectors. The lack of part-time jobs in the country was also brought up by a number of women. The provision of part-time jobs with decent working criteria would help increase female employment overall.

Another general issue amongst focus groups was that individuals have no faith in employment initiatives and programs. They do not trust the government and the facilities, exemptions and programs it announces. There is a common belief that NGOs and current employment programs are not sustainable, and therefore are not completely trustworthy. As mentioned above, there is also a lack of trust in the private sector. There is the perception that working in the private sector is not sustainable, leads to different kinds of harassment and does not provide fair financial remuneration.

Interestingly enough, the informal sector is no longer seen as a low-skilled sector. A number of new professions are currently practiced in the informal sector, alongside low-skilled jobs. For example, the existing freelance consultancies that now operate in the main cities are in fact part of the informal sector. A new caliber of individuals now operate in the informal sector, including highly educated individuals. Another form of educated people's informality can be seen in the case of IT technicians who operate from their homes. That being said, the influx of skilled individuals to the informal sector reveals the crucial need for amendments to the labor laws and the market in order to formalize the informal.

8. Potential of Formalizing the Informal

The findings of our empirical study largely support the theoretical literature on informality, revealing that the factors that influence economic agents operating in the informal economy could be grouped into three main pillars: high tax rates and fees, social security contributions, and regulation cost. Higher tax rates, fees and social security contributions are the most important driving forces for the expansion of informal activities. An increase in the tax rate in the formal economy will lead to an increase in the opportunity cost of remaining in the formal economy, resulting in net migration from the formal to the informal economy. The three aforementioned factors represent the gains and benefits that informal agents receive while operating informally. However, such gains are outweighed by certain costs at both the personal and national levels, such as penalties for tax evasion, indecent work conditions, the rate of unemployment, poverty rates and cultural attitudes towards the State.



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من الشعب الأمريكي The results show that most informal workers operating outside the legal regulatory framework face more costs than benefits. Most self-employed and wage workers in the informal economy are deprived of regular and fair income, secure work, workers' benefits and social protection. They are also subject to excessive penalties for operating informally. Self-employed workers must take care of themselves and their enterprises as well as their employees or family members who contribute without pay. Moreover, they often face competitive disadvantage compared to larger formal firms in financial and product markets.

Any attempt to formalize the informal can only be efficient if it addresses the following factors:

- *Financial burden:* Taxes, fees and social security burdens are among the main causes encouraging people to operate in the informal economy. The larger the gap between the total cost of labor in the official economy and after-tax earnings, the greater the incentive to avoid this difference by joining the informal economy.
- *Labor rigidity:* The intensity of labor market regulations is another important factor that reduces the freedom of choice for actors engaged in the official economy. Furthermore, tight labor regulations lead to increased unemployment. These regulations, which decrease the freedom of both the employer and the employee, reduce the likelihood of formal economy employment, thus generating opportunities in the informal sector.
- *Institutional quality:* Institutional quality has a large impact on competitiveness and growth. Excessive bureaucracy, lack of transparency, and directed credit to connected borrowers and strategic enterprises exacerbate the incentives of joining the informal sector. Furthermore, the stronger the enforcement capability and quality of government, the lower the expected size of the informal economy.
- *Regulatory burden in financial and product markets:* Burdensome regulations in product markets, in the form of rigid procedures for starting a business, registering property, and dealing with construction permits, as well as difficulties in the credit market (such as the availability and affordability of financial services), increase the size of the informal economy. By contrast, any legislation aimed at increasing local competition and reducing monopolies and market dominance would contribute to reducing the size of the informal economy.

As part of the national efforts toward integrating informal activities into the formal sector, the Ministry of Municipal Affairs and the Municipality of Greater Amman issued instructions to license the practice of home-based occupations in 2017 (see Annex 1). The number of people benefiting from the instructions of home-based work is still limited. However, these instructions constitute a highly important step that paves the way for the



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من الشعب الأمريكي Amman Municipality and other municipalities to consider more policies and procedures to encourage economic activities to move from the informal to the formal economy.

Recommendations

- An awareness campaign on the new home-based regulations is highly needed to encourage home businesses to register, which will boost women's participation in the labor force and encourage the youth to put different ideas to practice from their homes.
- **There is a need to revise the extremely high social security contribution, which resulted in widening the size of informal employment.**
- More efforts are needed to ensure the availability of appropriate means of financing with reasonable costs and conditions. The lack of awareness about microfinance programs, institutions, and initiatives was a common issue in focus group discussions. **Therefore, an awareness campaign on those programs and their financing tools would be highly beneficial.**
- Enhance the role of vocational and technical training services to informal workers. These services could act as incentives for informal workers to expand their operations and register their businesses.
- Simplify the procedures of registering and licensing activities, facilitate business start-up and introduce tax and fee incentives to entrepreneurs, all of which are factors that could lower both transaction costs and monetary costs. **Providing exemptions from registration and licensing fees for a grace period of 2-3 years would be highly beneficial.**
- Introduce marketing initiatives for licensed, home-based services and products such as annual festivals and periodic exhibitions.
- **As the country currently adopting decentralization approach, there is a need to activate the role of local councils in designing and drafting their own regulations and procedures regarding informality, taking into account their Governorates own specifications.**
- Expand the establishment of popular markets across all governorates, as these markets tend to attract informal sector workers in terms of location, organization, cost and type of offered goods.
- Encourage informal sector workers to organize themselves within appropriate frameworks, such as cooperatives, so as to enable them to develop their abilities



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من الشعب الأمريكي and skills to organize their enterprises and improve their financial returns, and thus to obtain licenses for such enterprises.

- More attention should be paid to the informal economy, while formulating macroeconomic policies. Ignoring or neglecting the inclusion of the informal economy in such policies may have unfavorable consequences.
- Efforts should be enhanced to continue to develop more appropriate means of measuring the informal economy and defining the structure of the relationship between the formal and informal economies, as well as to develop key macroeconomic indicators.
- There is a need for disaggregated data on the informal economy (data on the racial, gender and sectoral aspects of the informal economy). Such data cannot be obtained unless a comprehensive national survey, equipped with a well-designed questionnaire, is conducted. The Department of Statistics is the only legal entity in charge of conducting such national surveys.
- The informal economy should be tackled within local integrated development strategies, supported by participatory approaches that can generate comprehensive responses to support informal economy workers and entrepreneurs.
- Due to the dramatic development of the trend of the informal economy, more research is needed to understand the potential of the informal economy, rather than simply focusing on what it is currently available.



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Annex 1

Assessment of the 2017 instructions on licensing home-based occupations, issued by the Municipality of Greater Amman and the Ministry of Municipal Affairs, and their effectiveness in achieving the desired integration

The Amman Municipality and other municipalities play a key role in integrating the informal sector into the formal sector through a range of legislations and procedures, including a permit for home-based business, opening popular markets and licensing mobile food vehicles to sell snacks in public places.

First: Developing Legislations to Legalize Home-based Businesses

In 2011, the Municipality of Greater Amman issued the first instructions on licensing the practice of home-based businesses. These instructions included a list of 29 occupations that could be practiced under certain conditions. However, new instructions were issued the following year, and they included significant differences, including:

- The title of the instructions was amended. The phrase “practice occupations at home” was replaced by the phrase “practice home-based occupations”. The justification of this amendment was to expand the range of occupations that can be practiced and to modify their requirements.
- The licensing authority responsible for making decisions with regard to the identification of occupations that may be practiced from home (as well as the addition and deletion of any occupation) was transferred from the Prime Minister to the Municipal Council of Greater Amman.
- The number of home-based occupations that may be licensed was increased from 29 occupations (which included six handicrafts, with the remaining ones being of intellectual nature) to 42, which were divided into three categories: Intellectual professions (28), handicrafts (8), and food processing (6).
- The issuance of a license is no longer limited to a natural person registered in the Commercial Register of Individuals at the Ministry of Industry and Trade (an individual institution). Rather, the license may now be issued either to a natural person, such as an individual institution, or to a legal person registered at the Companies Control Department (such as a limited liability company, joint liability company, or limited partnership only).
- The raw materials and final products of certain handicraft occupations may now be stored in residential buildings in quantities that do not affect the residential nature of the house. This was not allowed in the previous instructions.



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- In the case of intellectual professions, the new instructions allow service providers to admit service recipients into their homes, at a rate that does not exceed the usual limits of residential use. In the case of handicrafts, the new instructions allow the display of products, receiving customers and the delivery of final products at home. This was not allowed in the previous instructions for intellectual professions and handicrafts.
- The new instructions assign the implementation of the provisions of these instructions to the Department of Occupation and Advertisement Licenses and the Department of Occupational Health Control. The previous instructions had assigned this task to the Department of Occupation and Advertisement Licenses and the Department of Construction Control, each according to its scope of competence.

In 2017, new instructions were issued by the Municipality of Amman, which are still in effect today. They include the requirements to be met for authorizing home-based occupations; the procedures of applying for a license; general provisions; the conditions for using part of the building for home-based work purposes; general and special requirements for practicing an occupation from home; and procedures for inspection, penalties, license cancellation and delegation of powers. The most notable differences between the 2017 instructions on licensing home-based occupations, compared to the 2012 instructions, are the following:

- The number of home-based occupations that may be licensed has increased from 42 occupations, divided into three categories, to 59 occupations, divided into four categories: Intellectual professions (37), handicrafts (10), food processing (6), and household services (6).
- It is worth noting that this number of occupations has risen to 71, mainly due to the Secretary General's decision to expand the "consultations of all types" professions to agricultural, commercial, technical, industrial, customs, chemical, insurance, navigation, tourism, geological, geophysical, water, environmental, public safety, scientific, intellectual and financial consultations. On the other hand, the professions of public relations and journalistic writing were removed.
- Under the general conditions, it is allowed to recruit or employ only one person to work with the licensee at home.
- The condition of securing public safety requirements (fire extinguisher and first-aid kit) has been added to the requirements of the food processing category.
- As for the new household services category, it is stipulated that the work should be carried out outside the licensed site, while licensees may receive customers and clients at home at a rate not exceeding the usual limits of residential use.



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من الشعب الأمريكي In 2017, the Ministry of Municipal Affairs also issued instructions to license the practice of home-based occupations. They differ from the instructions issued by the Municipality of Amman in the following main points:

- The head of the municipality is responsible for approving the permit application in municipalities, and the Amman Mayor is responsible for approving applications in the Municipality of Amman.
- Only the instructions of the Ministry of Municipal Affairs ensure that the building should be licensed and should have an occupancy permit, and that all home-based personnel should abide by the adopted working days and hours.
- The instructions of the Municipality allow the use of a sign not larger than 15 X 5 cm on the door of the house only, indicating the type of profession and license number. However, the instructions of the municipalities do not include the same.
- The Municipality instructions specified a number of special requirements for the practice of intellectual, handicraft, food processing and household services professions. However, the municipal instructions focus on the requirements for the home-based occupations of food processing and preparation.
- The Municipality instructions of 2017 included an attached list that determined the occupations approved by the Municipal Board which may be licensed for home practice. However, the Ministry's instructions of 2017 did not include a similar list. They refer to the list of occupations specified in item (5/c/3) of the Building Code and Cities and Villages Regulation No. (136) of 2016, including only 20 occupations without classification, which fall under the intellectual, handicrafts and food processing categories. This item is concluded by a statement stipulating that these professions must be practiced individually. However, the general requirements of these instructions on practicing home-based occupations allow the licensee to employ or recruit only one person to work with them. If the licensee is a company, the instructions stipulate that the number of workers, including partners and employees, should not be more than three.

A- Number of licensees to work from home:

The number of licenses allowed to work from home is about 800, 59% of whom are in the Municipality of Greater Amman, and the remaining percentage live in other municipalities. The instructions on licensing home-based occupations in the Municipality of Amman and other municipalities include a provision stipulating that the license may be issued in the two following forms:

- 1- In the name of the natural person registered in the commercial register of individuals at the Ministry of Industry and Trade.



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2- In the name of the legal person registered in the Company Registry at the Companies Control Department as a limited liability company, a joint liability company or a limited partnership.

B- Individual institutions registered in the Commercial Register:

The number of individual institutions registered in the Commercial Register at the Ministry of Industry and Commerce to practice home-based work amounted to 741 at the end of February 2019, as shown in Table (4-1), which illustrates the distribution of these institutions according to registration year, governorate and gender.

Amman, the capital, accounts alone for half (56.6%) of home-based individual institutions in all governorates. Irbid governorate comes in second place, as it includes less than a quarter (23.1%). The third and fourth places are occupied by Al Mafraq and Zarqa governorates, at 9% and 3.8% respectively. The number of these institutions decreases in the remaining governorates, four of which (Ajloun, Jerash, Tafila and Ma'an) have almost no demand for registering home-based individual institutions, as they include only one institution.

Table 1: Distribution of home-based individual institutions according to registration year, governorate and gender

Governorate	Number	%	Year	Number	%	Gender	Number	%
Capital	419	56.6%	2019	145	19.6%	Males	301	40.6%
Zarqa	28	3.8%	2018	522	70.4%	Females	421	56.6%
Al-Balqa'	19	2.6%	2017	46	6.2%	Not identified	19	2.6%
Madaba	8	1.1%	2016	7	0.9%			
Irbid	171	23.1%	2012	2	0.3%			
Ajloun	1	0.1%	2011	3	0.4%			
Jerash	1	0.1%	1982-2010	16	2.2%			
Al Mafraq	67	9.0%						
Al-Karak	17	2.3%						
Tafila	1	0.1%						
Ma'an	1	0.1%						
Aqaba	8	1.1%						
Total	741	100%	Total	741	100%	Total	741	100%

Source: Table prepared by the research team based on data provided by the Ministry of Industry and Trade, March 2019.



As for the distribution of these institutions according to the registration year, it is clear that the trend towards registering these institutions began in 2017, with 46 institutions (or 6.2%) being registered. In 2018, the largest number of institutions was registered, exceeding more than two thirds of the total number (70.4%), while the number of registered institutions until February 2019 reached 145 institutions. If the registration of individual institutions continues at this pace, it will greatly exceed the number of registered institutions in 2018.

Regarding the distribution of individual institutions according to gender, it is clear that women occupy the largest share of institutions, amounting to more than half (or 56.8%) of the total number. This indicates women’s tendency to seize the opportunity of legally licensing home-based work at the Municipality of Amman and the Municipalities.

C- Companies registered at the Companies Control Department:

As shown in Table (4-2), the number of companies licensed to work from home has reached 31. More than half of these companies are limited liability companies. The remaining companies are divided into joint liability companies (35.5%) and limited partnerships (13%). 96.8% of these companies, which include 52 partners, are registered in Amman, while the remaining companies are registered in Aqaba. More than one third of the partners (36.5%) are women.

Table 2: Distribution of home-based individual institutions according to the company type, number, headquarters, licensing year, and the number of partners

Establishment Year	No. of Companies	Company Headquarters		Company Type			No. of Partners	No. of Females
		Amman	Aqaba	Joint venture	Limited partnership	LLC		
2000	2	1	1	2	-	-	4	
2006	1	1	-	1	-	-	2	
2009	2	2	-	-	1	1	4	
2011	1	1	-	-	-	1	1	
2012	1	1	-	-	-	1	1	
2014	1	1	-	-	-	1	1	
2017	2	2	-	1	1	-	4	
2018	19	19	-	6	1	12	31	
2019	2	2	-	1	1	-	4	
Total	31	30	1	11	4	16	52	19



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Source: Table prepared by the research team based on data provided by the Companies Control Department, February 2019.

Second: Popular Markets

Popular markets are among the most important spaces that accommodate a significant number of informal sector workers, particularly stall owners and street vendors. Popular markets provide informal workers with a suitable (or at least acceptable) public place to sell their goods, which is controlled by the municipality. Therefore, due to the nature of the services provided in them, popular markets are considered to be one of the most important mechanisms of transferring the informal sector to the formal sector.

It is worth mentioning that popular markets are established by virtue of laws on municipalities, most recently Law No. 41 of 2018 on Municipalities. Article 11 thereof states that “public markets shall be established and organized. The types of goods sold in each of them shall be specified and shall not be sold outside these markets.” This explains the establishment of all markets in Amman during the previous period, as the Amman Municipality had issued decisions on the matter, including its instructions to license home-based work in 2011.

The capacity of the six popular markets in Amman, as shown in Table (4-3), reaches a total of 1,533 stalls, benefiting 4,250 people. **The cost of owning a stall in four markets out of total six ranges from 30 to 60 dinars. As for the remaining two markets, one of them, which is (the market of immigrants) is free of charge, while displaying products in the other market (the second-hand market of “bales” in Marka) costs 5-10 dinars per month.** With the exception of the market of immigrants that opens on weekends, the other five markets open on weekdays except Fridays.

Table 3: Distribution of popular markets in the Municipality of Greater Amman according to their establishment date, capacity, cost, number of beneficiaries and opening days

Market Name	Establishment Date	Capacity	number of beneficiaries	Monthly Cost	Opening Days
Wehdat Popular Market (Ras Al Ain)	1997	260 stalls	850	30-60 dinars	From Saturday to Thursday
Al Hussein Popular Market (Basman)	1998	281 stalls	1050	30-60 dinars	From Saturday to Thursday
Bayader Popular Market (Wadi Al Seer)	2002	52 stalls	100	30-60 dinars	From Saturday to Thursday
Marj Al Hamam Popular Market	2009	68 stalls	100	30-60 dinars	From Saturday to Thursday



(Marj Al Hamam)					
Bale Market (Marks)	1987	222 stalls	650	5-10 dinars	Weekdays
Friday (immigrants) Market (Badr Nazzal)*	1988	650 stalls	1500	Free	From Thursday to Saturday
Total		1533 stalls	4250 beneficiaries		

(*) Former Al-Abdali market; it was transferred to immigrants in 2015.

Source: Municipality of Greater Amman, Department of Property, February 2019.

Third: Mobile Food Vehicles

The “2019 instructions on licensing mobile vehicles intended for exercising occupations within the boundaries of the Greater Amman Municipality” were issued in February 2019. These instructions regulate the preparation and sale of snacks, hot and cold beverages, desserts, and ice cream. They include several general provisions, including that no person may be granted more than two licenses. They also include conditions related to the site (the vehicle must be parked in specific locations), vehicle, licensee, personnel, working hours, and procedures and requirements of obtaining a license through auction announcement.

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